

**MINUTES
BOARD OF TRUSTEES OF THE
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, Indiana 46204
June 17, 2005**

REGULAR SESSION

Board Members Present

Ken Cochran, Acting Chair
Kathy Ettensohn
Matt Murphy
Bob Welch

Board Members Absent

None

Others Present

Chuck Schalliol, Office of Management & Budget
Tony Armstrong, Office of Management & Budget
John Renner, Office of Management & Budget
Kathleen Cash, Indiana Senate
Richard Boggs, Burnley Associates, Inc.
Janet Raffouf, L-3 Communications
Doug Todd, McCready & Keene
Richard Lonar, McCready & Keene
Brad Moore, Indiana Finance Authority

PERF STAFF Present

David Adams, Executive Director
Bruce Kimery, Deputy Director/Chief Benefits Officer
Bruce Fink, Chief Investment Officer
Charles Johnson, Chief Financial Officer
Will Frayer, Staff Attorney
Linda Villegas, Staff Attorney
Becki Cook, Executive Assistant to the Executive Director
Tom Parker, Director of the 1977 Police & Fire Fund
Jayelynn Willman, Executive Assistant to the Board

Meeting called to order by Linda Villegas at 12:07 pm. Ms. Villegas requested that an acting board chair be elected to chair the meeting.

I. APPOINTMENT OF ACTING BOARD CHAIR

MOTION duly made and carried to approve Ken Cochran as the Acting Board Chair.

Proposed by: Kathy Ettensohn
Seconded by: Bob Welch
Votes: Three in favor, 0 against, 0 abstentions

II. APPROVAL OF MINUTES

MOTION duly made and carried to approve the minutes from the Board of Trustees, February 25, 2005 meeting.

Proposed by: Bob Welch
Seconded by: Matt Murphy
Votes: Four in favor, 0 against, 0 abstentions

MOTION duly made and carried to approve the minutes from the March 18th, 2005, Investments Committee Meeting.

Proposed by: Bob Welch
Seconded by: Kathy Ettensohn
Votes: Four in favor, 0 against, 0 abstentions

III. OLD BUSINESS

There is no old business for the board to discuss.

IV. REPORT OF EXECUTIVE DIRECTOR

- David Adams provided a detailed presentation to the board to introduce the new Board Members to PERF.
- Mr. Adams outlined PERF's current status, providing insight on major issues and including the FY04 audit findings from the State Auditor's office. He then provided the Board with recommendations on how best to address those issues, including details of audit finding items that would be addressed immediately.
- Mr. Adams continued his presentation with his vision on the direction of PERF, and his plan to guide the organization to meet the goals that were recommended. This vision is based on detailed feedback from PERF's customers (employers, active members and retirees). The areas of focus are on people, process and technology. He introduced an organizational chart illustrating the restructure of some areas and highlighted areas of need.
- Mr. Adams explained in detail how PERF will measure itself and introduced the Performance Scorecard established at the Governor's request which will be updated monthly and reported quarterly to the Governor's office on PERF's progress.
- Finally, Mr. Adams provided the Board with several recommendations on issues that might impede the ability to move more quickly to achieve those goals.

V. FY 04 SBOA AUDIT REPORT

- Charles Johnson, Chief Financial Officer for PERF, provided details to the Board on how internal controls are currently structured and gave a description of the plan going forward to mitigate the issues which were identified in the audit findings. The areas to be addressed focus on people, process and technology.
- In order to immediately address some resource issues, consultants have been hired in the accounting department and will be added in the auditing department.
- Mr. Johnson also indicated that the entire process for issuing benefit payments (retirement and refunds) is being re-engineered to be more effective and timely.
- Mr. Johnson also stated that PERF would be contracting with consultants for audit support for the FY05 audit, which will begin shortly.

VI. LEGISLATIVE UPDATE

- Linda Villegas went through a summary of the legislation effecting PERF. See Legislative Summary under Tab 3.
- Senate Bill 149 – The OMB Director, Chuck Schalliol, is authorized to appoint a designee in the event that he cannot attend. Tony Armstrong, Deputy Director of OMB, will be that designee effective July 1, 2005.

VII. FIRST QUARTER 2005 PERFORMANCE REPORT

- Bruce Fink provided the board members background on the current investment policy including asset allocation, current fund investment and performance. He identified the benchmarks and the manager's performance against those benchmarks.
- Kathy Ettensohn inquired about PERF's process for evaluating various managers and specifically if there is a watch list. Mr. Fink explained that PERF doesn't currently have an explicit watch list, and proceeded to outline the measures taken by PERF to ensure performance against internal benchmarks.
- Mr. Fink also outlined the management of investments into public and private markets and our allocations.
- The alternative asset class was identified as an area that would be a major focus of the organization going forward.

VIII. FINANCIAL UPDATE CURRENT YEAR BUDGET

- Charles Johnson updated the board members on PERF's current budget as of the end of May. PERF is at approximately 70% of budget. Mr. Johnson expected that PERF will reach 80-85% of budget by year end.
- Mr. Johnson also provided to the board details on the roles of the major consultants PERF has under contract.

- Mr. Johnson discussed the Pension Relief Fund which provides financial relief for local government pension relief funds. He explained how it is funded and how distribution of the fund is calculated. At the current rate the fund will be exhausted by 2012 unless the legislators take action.

IX. BUDGET

- Charles Johnson reviewed with the board PERF's proposed budget for FY06, including staffing plans, administration, investment and operational enhancements. The total budget proposed to the board for FY06 is \$64.2 million.

MOTION duly made and carried to approve the Budget for FY 06.

<i>Proposed by:</i>	<i>Bob Welch</i>
<i>Seconded by:</i>	<i>Matt Murphy</i>
<i>Votes:</i>	<i>4 in favor, 0 against, 0 abstentions</i>

X. NEW UNITS AND ENLARGEMENTS

- Bruce Kimery provided the board members with the history and process for new units and enlargements. He indicated that new units and enlargement can occur twice a year, effective July and January.
- The actuary establishes a contribution rate for each new unit and/or enlargement. A copy was provided to the board.
- The statute also allows charter schools to join PERF at any time.
- Kathy Ettensohn asked if there was any reason why this wouldn't be approved. Mr. Kimery stated that there is minimal administrative impact and there was no reason not to approve them.

MOTION duly made and carried to approve the New Units and Enlargements.

<i>Proposed by:</i>	<i>Kathy Ettensohn</i>
<i>Seconded by:</i>	<i>Ken Cochran</i>
<i>Votes:</i>	<i>4 in favor, 0 against, 0 abstentions</i>

XI. ASA GUARANTEED FUND RATE APPROVAL

- Bruce Fink provided background on the ASA guaranteed investment option and stated that 80-85% of all dollars invested by participants is in this option.
- Mr. Fink explained the methodology adopted by previous boards to set the rate and based upon that methodology recommended a rate of 5.75% for FY06.

MOTION duly made and carried to approve the ASA Guaranteed Option Interest Rate at 5.75% for FY 06.

Proposed by: Matt Murphy
Seconded by: Kathy Ettensohn
Votes: 4 in favor, 0 against, 0 abstentions

XII. CONTRIBUTION RATES

- Doug Todd & Richard Lonar from McCready & Keene discussed the Employer Contribution Rate, how they were determined, and what actuarial assumptions were used to determine the rate.
- Doug Todd reported that key issues included data quality, phase-in time frames, and the Cost of Living Adjustment (COLA), which he explained in further detail to the board members.
- Mr. Adams mentioned that we need to research additional ways to stabilize this contribution rate. Employers want to see more consistency with it since it directly effects their budget.

MOTION duly made and carried to approve the employer contribution rates.

Proposed by: Bob Welch
Seconded by: Kathy Ettensohn
Votes: 4 in favor, 0 against, 0 abstentions

XIII. SENATOR GARTON

- Linda Villegas outlined an inquiry made by Sen. Garton requesting that PERF determine if a mechanism was available to allow legislative service employees who meet certain criteria to receive service credit.
- Resolution No. 05-04 was reviewed with the board. This resolution was prepared in consultation with Chief Legal Counsel for the Indiana State Senate. The resolution outlines the details requirements to be satisfied by employees and the employer contribution requirements.

MOTION duly made and carried to adopt Resolution No. 05-04.

Proposed by: Kathy Ettensohn
Seconded by: Ken Cochran
Votes: 4 in favor, 0 against, 0 abstentions

XIV. LINE OF DUTY DEATH BENEFIT APPROVAL

- Tom Parker presented to the board a resolution to pay the Line of Duty death benefit for James L. Davis, Jr.

MOTION duly made and carried to approve the Special Death Benefit Claim for James L. Davis, Jr.

Proposed by: Matt Murphy
Seconded by: Ken Cochran

Votes: *4 in favor, 0 against, 0 abstentions*

- Tom Parker presented to the board a resolution to pay the Special Death Benefit Claim for Joyce E. Williams.

MOTION duly made and carried to approve the Special Death Benefit Claim for Joyce E. Williams.

Proposed by: *Matt Murphy*
Seconded by: *Kathy Ettensohn*
Votes: *4 in favor, 0 against, 0 abstentions*

- Kathy Ettensohn requested information on why the board needs to approve these benefits if the statute outlines how much money PERF is to pay. Tom Parker explained the process and reported that he would investigate why it was set up this way.
- David Adams asked Linda Villegas if a resolution needed to be approved by the board in order to allow the Executive Director to approve these payments. Ms. Villegas reported that she would review the statute and report back on this.

XV. IPSI BOARD APPOINTEES

- There are two employees from PERF that are appointed to the IPSI Board. One is Bruce Kimery, whose term expired in January. Therefore, Resolution 05-03 will appoint Dave Huffman, Chief Technology Officer and Deputy Director of PERF, to that board. That position would commence on June 8, 2005 and expire January 2007.

MOTION duly made and carried to appointment Dave Huffman to the IPSI Board.

Proposed by: *Kathy Ettensohn*
Seconded by: *Bob Welch*
Votes: *4 in favor, 0 against, 0 abstentions*

XVI. DELEGATION OF PERSONNEL DUTIES TO EXECUTIVE DIRECTOR

- Resolution No. 05-05 is to delegate certain personnel programs and policies that the board has in regards to PERF employees to the Executive Director. This means the Executive Director would be authorized to make personnel decisions on behalf of the board, conduct hiring and implement the terms of the personnel handbook and policies of the board.
- An addendum will be attached to this resolution so that the resolution will include any actions taken by Acting Executive Director, Bruce Kimery during January 11, 2005 through March 8, 2005.

Proposed by: *Bob Welch*
Seconded by: *Kathy Ettensohn*
Votes: *4 in favor, 0 against, 0 abstentions*

XVII. DATE OF NEXT MEETING

The next Board of Trustees Meeting will be held on July 15, 2005.

XVIII. ADJOURNMENT

Meeting adjourned at 4:08pm.